

PD-ARB-751

ISN 68269

**AUDIT OF INDONESIA'S APPLIED
AGRICULTURAL RESEARCH
PROJECT NO. 497-0302**

**AUDIT REPORT NO. 2-497-90-07
JULY 30, 1990**

Although facilities were constructed and commodities provided, this project could have been more effectively implemented. Most facilities and commodities provided were under-utilized, some commodities did not meet source/origin requirements, the host-country contribution was less than agreed and project monitoring was ineffective.

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT
MANILA

UNITED STATES POSTAL ADDRESS
USAID/RIG/A/M
APO SAN FRANCISCO 96528

INTERNATIONAL POSTAL ADDRESS
c/o AMERICAN EMBASSY
MANILA, PHILIPPINES

DATE: July 30, 1990

MEMORANDUM

TO: Lee Twentyman
Acting Director, USAID/Indonesia

FROM: *William C. Montoney*
William C. Montoney
Regional Inspector General

SUBJECT: Audit of Indonesia's Applied Agricultural
Research Project No. 497-0302
Audit Report No. 2-497-90-07

The Office of the Regional Inspector General for Audit/Manila has completed its Audit of Indonesia's Applied Agricultural Research Project. Five copies of the audit report are provided for your action.

The draft report was submitted to you for comment and your comments are attached to the report. The report contains six recommendations. Recommendations No. 1, 2, 3, 4 and 6 are resolved and can be closed when actions in process are completed. Recommendation No. 5 is unresolved pending agreement on a responsive plan of action.

I appreciate the courtesy and cooperation extended to my staff during the audit.

EXECUTIVE SUMMARY

Started in September 1980, the Applied Agricultural Research Project was to strengthen the Government of Indonesia's agricultural research system by expanding and improving a network of research facilities. The Project's objectives were to

- strengthen research planning, coordination and evaluation;
- upgrade facilities and support services;
- prioritize research on selected commodities and farming systems;
- strengthen linkages among the Government of Indonesia, universities and the private sector to enhance research output; and
- support the development of Indonesia's future agricultural research programs and policies.

To achieve these objectives, A.I.D. provided \$33 million of loan and grant funds. The Government of Indonesia had agreed to provide, in local currency equivalent, \$22.8 million for support of the project either in cash or in kind. A.I.D. had committed all of its funds, but a shortfall existed for the GOI contribution.

We audited the project to determine if the project was being effectively implemented and was meeting its objectives, and we found the following:

- The project could be more effectively implemented to achieve its objectives.
- Research facilities were not fully operational and several will not be by project's end.

- Commodity delivery was behind schedule and many items delivered were either not being used or were not needed. Some items apparently do not meet A.I.D.'s source and origin requirements.
- Government of Indonesia project contributions were not being provided at agreed to levels.
- Overall, monitoring of the project was ineffective.

The report contains six recommendations addressing these issues. While the Mission disagreed with some of our conclusions, it agreed with the recommendations and had initiated corrective actions responsive to all but one.

Office of the Inspector General

Office of the Inspector General
July 30, 1990

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	i
INTRODUCTION	1
Background	1
Audit Objectives	3
Scope and Methodology	3
RESULTS OF AUDIT	5
The Project Needs a Plan to Achieve Its Intended Purpose	6
The Project Monitoring System Was Ineffective	11
Facilities Were Under-Utilized and Some Needed Repairs	14
Most of the Commodities Were Not Being Used	21
Host-Country Contributions Were Not Provided as Planned	32
Some Commodities Provided Did Not Meet Source and Origin Requirements	35
COMPLIANCE	39
INTERNAL CONTROLS	40

Exhibit

Logical Framework

1

Farm Equipment With Questionable Origins

2

Appendix

MANAGEMENT COMMENTS

I

RECOMMENDATIONS

II

REPORT DISTRIBUTION

III

INTRODUCTION

BACKGROUND

The overall objective of the Applied Agricultural Research Project was to strengthen the Government of Indonesia's (GOI) agricultural research system by expanding and strengthening a network of agricultural research facilities in West Java, Kalimantan, Sulawesi, Maluku, Nusa Tenggara Timur, Bali and East Timor. Specifically, the project was to (1) strengthen research planning, coordination and evaluation; (2) upgrade facilities and support services; (3) prioritize research on selected commodities and farming systems; (4) strengthen linkages among the GOI, universities, and the private sector to enhance research output; and (5) support the development of Indonesia's future agricultural research programs and policies.

The project was initiated in September 1980 with a Project Assistance Completion Date of September 30, 1985. In August 1985 the project was amended to add grant and loan funds and to extend completion to September 30, 1992. The total cost of the amended project was approximately \$55.8 million. A.I.D. contributions totaled \$33 million (\$18.9 million loan and \$14.1 million grant) of which \$32.4 million had been obligated for project activities as of September 30, 1989. Obligations from the loan agreement included \$6.3 million for commodities and vehicles, \$4.3 million for training, \$4.3 million for construction, and \$3.4 million for commodity research, special studies, contingencies and inflation. Obligations of \$14.0 million in grant funds were to finance technical assistance, collaborative research and training. Host country contributions to the project were to be \$22.8 million, in local currency equivalent, including \$5.0 million in local currency proceeds from the sale of P.L. 480 Title I commodities. These contributions were to be provided either in cash or in kind.

To achieve its objectives, the project was to construct 17 research facilities, primarily on the outer islands of Indonesia, and furnish technical assistance and the necessary commodities, including laboratory, office and field equipment for these facilities. The GOI would construct the facilities and A.I.D. would reimburse the GOI for a fixed percentage of the construction

costs after inspection and acceptance. As of September 1989 A.I.D. disbursements for construction were about \$1.85 million. The majority of the completed construction was at three sites -- Bogor, West Java; Banjarbaru, Kalimantan; and Maros, Sulawesi.

The GOI's Agency for Agricultural Research and Development (AARD) had overall responsibility for project implementation. AARD was also responsible for implementing the National Agricultural Research Program and for planning, programming, and coordinating policies for the administration of research and development within the Ministry of Agriculture.

AUDIT OBJECTIVES

This was a performance audit, conducted to determine whether the project was being effectively implemented and was achieving its objectives. Specifically, we determined whether:

- constructed facilities were operational and being effectively utilized,
- a system was in place to monitor project implementation,
- commodities were being acquired in accordance with A.I.D.'s source and origin requirements and were being used in an effective manner, and
- host-country contributions were being monitored and provided in accordance with project agreements.

SCOPE AND METHODOLOGY

Field work was conducted at USAID/Indonesia, the GOI's Agency for Agricultural Research and Development, and selected research facilities on the islands of Java, Kalimantan, Sulawesi, and Bali. The audit assessed a judgmental sample of facilities constructed and commodities delivered at these locations. We reviewed project files and interviewed Mission, GOI and technical assistance contractor personnel. The field work was conducted from September 1 through November 15, 1989.

The audit was conducted at major construction sites and at sites where commodities were delivered. Construction sites selected, based on the value of A.I.D.'s contribution toward facility construction, were Bogor, West Java (\$576,000); Banjarbaru, Kalimantan (\$461,000); and Maros, Sulawesi (\$377,000). Other sites which were within reasonable distances of the three primary locations were also visited; these had a combined A.I.D. contribution of about \$138,000. The sites visited represented approximately 84 percent of facility construction which had been completed, accepted and reimbursed by

A.I.D.. Sites where commodities had been delivered were Bogor, West Java; Banjarbaru, Kalimantan; Gondol, Bali; and Maros, Sulawesi. We visited these locations and tested delivered items with a value in excess of \$1,500, which represented about 50 percent of the total value of commodities delivered.

The scope of this audit was limited in two ways. Much of the documentation outside of the Mission was in the native language (Bahasa Indonesia). Although Mission personnel were relied on to interpret these documents, we attempted to verify the interpretations with GOI and other Mission personnel. The other limitation was that a Mission-financed evaluation of the technical assistance portion of the project was ongoing at the time of the audit. To avoid duplication of effort, the audit did not review technical assistance contracts representing \$13.4 million of \$14.1 million in A.I.D. grant funds obligated under the project.

The reimbursement for construction costs in this project were included in a Mission-wide audit on the use of Fixed Amount Reimbursement procedures. In our March 1988 audit report (2-497-88-05), we disclosed that the Mission had reimbursed the GOI a greater percentage of costs than allowed in project implementation letters. The Mission subsequently justified its actions but revised its Mission guidance on the use of these procedures.

This audit included reviews of compliance with laws and regulations and Mission internal controls as they related to the audit objectives. This audit was made in accordance with generally accepted government auditing standards.

RESULTS OF AUDIT

Although facilities were constructed and commodities provided, this project could have been more effectively implemented. Constructed facilities were not fully operational and several facilities may not be operational at project completion. Most of the research facilities constructed were under-utilized--one facility was virtually unused--and several were in need of repairs and maintenance. Although commodity delivery was planned to coincide with the completion of construction, this did not occur. Of the commodities provided, most were not being used because they were not installed, were no longer needed, or were inappropriate for their intended purpose. Some commodities purchased through host-country supplier contracts apparently do not meet A.I.D. source or origin requirements. Also, the Government of Indonesia (GOI) was not providing sufficient funds to keep the project operating at planned levels, even though it had agreed to. Finally, Mission monitoring of this project was not effective.

To better manage project implementation, the Mission should develop a life-of-project plan identifying inputs, outputs and bench marks to measure project progress. Specific plans to staff and utilize the constructed facilities are needed. Monitoring systems for the overall project, host-country contributions, and the use of commodities need to be established. Also, the Mission needs to ensure that commodities provided meet source and origin requirements.

The Project Needs a Plan to Achieve Its Intended Purpose

The project officer is to establish a plan that will ensure the achievement of the project's objectives and to modify the plan as necessary. Although project progress was significantly delayed, the project implementation plan was not revised even though research facility construction and commodity delivery were about three years behind schedule. Also, the GOI was not able to support the project as originally planned--budgetary support was less than expected and the assignment of researchers at constructed facilities has been delayed. As a result, the project has made limited progress toward its objectives and was unlikely to achieve them by project's end.

Recommendation No. 1

We recommend that USAID/Indonesia, in cooperation with the Government of Indonesia, develops a life-of-project plan which identifies and schedules inputs, sets meaningful interim and final objectives, and addresses project sustainability after A.I.D. assistance ends.

A.I.D. Handbook 3 requires the project officer to establish plans which ensure that the project achieves its intended objectives and to modify this plan as needed. The essential elements of good project design should permit and facilitate measuring progress toward planned targets, identifying reasons why the project is or is not achieving planned targets, and determining whether project objectives continue to be relevant to the country's development needs.

This project was to assist the GOI in improving its research capabilities by providing technical assistance and commodities and by expanding research facilities in Indonesia. The August 1985 project paper amendment stated that commodity arrival was to be coordinated with construction schedules so that commodities would be adequately housed and immediately useful. Construction was to be completed by October 1986 and all commodities were to arrive by December 1986. Although the technical assistance was provided as scheduled, the AID-financed research facilities and commodities were not

provided within the planned time frames. The project officer commented that the technical assistance and construction contracts had timetables, but as delays occurred there was no attempt to modify the overall implementation plan. He stated that they believed they knew what the problems were and what needed to be done; however, they did not prepare a plan showing the impact on other project components such as personnel training or host-country contributions.

Commodity procurement was seriously delayed, and some of the delivered commodities were not complete. Most of the construction was completed by 1986; however, the first commodities did not arrive until October 1987 and only about one-third of the commodities planned for the project had been delivered by November 1989. Some items could not be used because parts were missing or they were inappropriate for the intended use. Further, training for equipment operators was to be conducted by technical assistance contractors, but some of the contracts expired before the commodities were delivered.

Another major assumption was that the GOI would provide adequate resources for agricultural research. However, two research facilities had been completed for 18 months and did not have the necessary staff to perform research activities. An animal disease center was practically empty except for administrative staff. This center was to have 19 researchers conducting research on livestock, but the center's director revealed that only five researchers had been assigned and he did not know when additional research staff would be available. Other research facilities were staffed at levels below what was expected, but sufficient staff was available to conduct a minimal amount of research. Another donor was conducting training for the GOI's Agency for Agricultural Research and Development (AARD) and it was expected that some of the trained personnel would be assigned to this project. Neither A.I.D.'s project officer nor the GOI's project leader knew how many researchers were being trained or when these researchers would be available for this project. The GOI project leader expected all facilities to have sufficient qualified staff by the September 1992 project completion date.

The GOI project leader stated that the project could not be supported or sustained at the level expected by the project's end. The GOI would continue project activities after project completion, but the GOI did not have the funds to maintain project activities at the planned levels without assistance. GOI contributions to the project had not kept pace with the implementation plans because of general budgetary shortfalls. A Mission-financed evaluation stated that A.I.D. and other donor funds had supplied most of the funding for research and had temporarily offset the GOI budget cuts affecting research. It also states that AARD must increase its efforts to obtain funding from Indonesia's revenues to maintain or enlarge the quality and quantity of its research. However, it is unlikely, given existing economic conditions, that the GOI can commit adequate funds and resources to perform research at planned levels after A.I.D. assistance ends.

The amount of research conducted has declined during the life of the project. The GOI budget was not sufficient to maintain research at the planned levels; there were not enough qualified research personnel; and the necessary equipment was not available because of procurement delays. AARD's Coordinator For Food Crop Research stated that the planned level of research could not be reached and that the GOI needed to revise its research plans. The Coordinator also stated that the GOI probably will not be able to adequately staff all of the facilities provided because a shortage of funds had resulted in a hiring freeze. He did not know when the facilities would be fully staffed.

A means to assess progress of the project was presented in the project paper's logical framework (see Exhibit 1). The logical framework states the project's objectives in terms of goal, purposes, outputs and inputs and establishes the objectively verifiable indicators for each, as well as the means for verification. A senior GOI official stated that the logical framework of this project, especially the purpose and output sections, was so broadly written that it could not be used to measure any of the project's contributions, either quantitatively or qualitatively. The Mission's project officer concurred that the impact of this project could not be determined because the project purposes and outputs were too broadly stated. He explained that while the objectively verifiable indicators for the purpose statements related to the

whole GOI agricultural research system, this project was only a small part of the total agricultural research conducted in Indonesia. Also, he stated that there were many donors working in this area, and it would be impossible to show that achievement of the verifiable indicators listed in the logical framework were the result of this project.

Significant delays occurred in providing project inputs--commodities, research facilities and trained staff--which, in themselves, warranted revising the implementation plan and methodology for measuring project success. Further, the logical framework included in the amended project design had not been revised even though it was considered useless for measuring project success. Accordingly, a plan for the remaining life of this project needs to be developed which identifies necessary inputs, sets measurable interim and final objectives and addresses project sustainability after A.I.D. assistance ends.

Management Comments

While the Mission agreed with the recommendation, it disagreed with our conclusion that the project was not being effectively implemented to achieve its objectives. The Mission response (see Appendix I) to our draft report cited the achievements in agricultural research and the resultant improvements in Indonesian agricultural production attributable to donor contributions in this area. Although admitting that these achievements were the result of 30 individual projects funded by eight bilateral and multilateral donors, it contended that this project must be seen as part of an overall effort to improve agricultural research and be measured in conjunction with the accomplishments of other donor and GOI efforts in this area. The Mission also cited several achievements resulting from project-provided technical assistance--an area excluded from our audit to avoid duplicating the efforts of a concurrent Mission-funded technical assistance evaluation. However, the Mission has begun working with the GOI to develop a life-of-project plan which will identify and schedule inputs, establish interim targets and address project sustainability.

Office of the Inspector General Comments

We agree with Mission officials that significant progress has been made in improving the capability of the GOI to conduct agricultural research during the life of this project. We also agree that these improvements are the result of the combined efforts of the GOI, A.I.D. and other donors. However, the conclusions and recommendations in this report relate specifically to an assessment of the Applied Agricultural Research Project and the need for actions necessary to more effectively pursue project objectives over the remaining life of the project. The Mission's agreement to develop a life-of-project plan is responsive to Recommendation No. 1, which is resolved and can be closed once the life-of-project plan is completed and approved.

The Project Monitoring System Was Ineffective

The project officer is responsible for establishing methods to ensure that the project is implemented to produce the intended benefits. AARD was responsible for implementing the project, but it had not kept the Mission's project officer informed about the lack of research personnel, reduced amounts of research conducted, and under-utilization of AID-provided facilities and commodities. The Mission was uninformed because an effective system for monitoring and reporting project results had not been established. Therefore, the Mission did not know the extent of problems impeding effective utilization of the AID-provided project resources.

Recommendation No. 2

We recommend that USAID/Indonesia, in cooperation with the Agency for Agricultural Research and Development, establishes a project tracking system which reports on progress bench marks and actions critical to project success and identifies impediments to achieving the project's objectives.

The project officer is responsible for monitoring project activities to ensure that the project is implemented to produce the intended benefits. According to A.I.D. Handbook 3, Chapter 11, a project monitoring system enables A.I.D. to track progress made in implementing the project and to determine whether or not methods and procedures are in accordance with the terms and conditions of the project agreement. Monitoring requires timely gathering of information regarding inputs, outputs and actions which are critical to project success. Monitoring requires the comparison of information gathered with plans and schedules to alert A.I.D. and the host government to potential implementation problems. Monitoring is also necessary to ensure that project funds are disbursed in accordance with A.I.D. regulations and that goods and services are utilized effectively to produce the intended benefits.

A monitoring system for this project was not established. The project officer stated that he used meetings with technical assistance contractor and GOI project personnel and visits to the sites to monitor the project. There was no

reporting system in place with bench marks to identify either progress or problems in achieving project objectives.

The need for a project tracking system is related to the need for a life-of-project plan. As A.I.D. Handbook 3 states, monitoring is to compare plans and schedules against information gathered. The other findings in this report concerning facilities, commodities, host-country contributions, and source and origin compliance for commodities also are related to monitoring. Since AARD was responsible for implementing the project, periodic AARD reporting on the status of implementation was needed for the project officer to adequately track project progress. The following are examples of project problems not being adequately monitored.

Trained Researchers

The majority of trained researchers for this project were to be provided through another donor's project. That project was to provide AARD with 600 trained researchers, some of whom were to be assigned to this project. According to the AARD project leader, most of these researchers were still in training and he did not know how many researchers were to be assigned to this project. Neither the Mission's project officer nor the AARD project leader had tracked the progress of these personnel.

Level of Planned Research

One of the planned outputs of this project was improved procedures for setting priorities, obligating sufficient operational budgets and planning and implementing research. The amount of research being performed at the food crop research institutes had gone down since the project was amended in 1985. The Mission's project officer was aware of the general condition but he was not aware of the extent that research activity had decreased. In fact, research activity had decreased by about 50 percent from 1986 to 1989. According to GOI officials, the principal reason for the reduced level of research was reduced oil revenues which resulted in a severely reduced GOI budget. Although there is no reason to believe this condition will change, the GOI is planning for higher levels of research into the 1990's. This is inconsistent with the intended project output of improving procedures for setting priorities and budgeting for research.

Commodities

Commodities were to be provided in a timely manner to enable technical assistance personnel to assist in their installation and to train researchers to operate some equipment. Because of procurement delays, some technical assistance personnel had departed Indonesia prior to the arrival of the commodities for which they were responsible. Also, some commodities were intended for outlying facilities but were stored at the major research centers. Some of these items had been stored for more than nine months because the centers did not have funds to pay for the transportation. A.I.D. can pay for the transportation of commodities to the final destination; therefore, this type of delay should not have occurred. However, the Mission's project officer was unaware that these commodities were stranded and had not received a request to pay the transportation costs. As a result the stranded commodities remained at the wrong location.

Progress reporting can be used to record what actions have or have not been taken. Given the problems encountered in implementing this project, periodic progress reports would help to track actual results against planned activities. The Mission's project officer agreed that progress reporting by AARD could improve project monitoring.

Management Comments

Although the Mission disagreed with our conclusion that project monitoring was ineffective, it agreed to restructure its project monitoring to include progress reporting on the implementation of the new life-of-project plan. Monthly implementation meetings will be held between the Mission and AARD for the purpose of measuring progress and identifying constraints to the quarterly and overall implementation plans. Formal monthly and quarterly progress reports will be issued.

Office of the Inspector General Comments

The Mission plan of action is responsive to Recommendation No. 2, which is resolved and can be closed once the new monitoring and reporting system is in place.

Facilities Were Under-Utilized and Some Needed Repairs

The facilities co-financed by A.I.D. were under-utilized and several needed repairs. A.I.D. provided \$4.3 million for the construction of research centers and stations, including housing, laboratories, administrative buildings, farming areas and related structures. The GOI agreed to utilize the AID-financed facilities for project purposes and to provide adequate funds for their maintenance and repairs. Of the facilities visited several were under-utilized because trained researchers were not available, and some were in need of repairs due to insufficient GOI funding. As a result, the financing provided by A.I.D. was not being effectively utilized to expand the GOI's agricultural research capability.

Recommendation No. 3

We recommend that USAID/Indonesia, in cooperation with the Government of Indonesia, develops a facility utilization plan which addresses facility staffing levels, equipment delivery and installation, budgeting for repairs and maintenance and research targeting that includes options for scaling back at less important facilities until personnel and equipment are available.

In the loan agreement, the GOI agreed to carry out the project with due diligence and efficiency and to provide qualified and experienced management for the maintenance and operation of the project. In Amendment 4 to the loan agreement, the GOI agreed to provide adequate funds for maintenance and repair of research facilities and equipment.

The project was to assist the GOI in strengthening its research capabilities by making \$4.3 million in loan funds available for construction of 17 research facilities. These facilities were financed under the Fixed Amount Reimbursement process, whereby the GOI paid to construct the facilities and A.I.D. reimbursed the GOI after the facilities were inspected and accepted by USAID/Indonesia. Construction under this project ranged from a large research institute to a small experimental farm and included laboratories, housing units, administrative offices, storage buildings, green houses, farming

areas and related structures. As of September 1989 A.I.D. had made reimbursements of \$1.8 million covering 14 of the 17 research facilities.

The maintenance and utilization of facilities constructed under the project has been hampered by reduced GOI funding, delayed commodity procurement and lack of qualified research staff. The primary problem is the GOI budget. At the time this project was started, oil prices were high and the GOI was expanding. The planned maintenance budgets for project research facilities would have been sufficient to keep the buildings in good repair. However, oil prices have declined. Consequently, the GOI does not have the funds, according to GOI officials, to maintain both the facilities constructed under this project and those already in use at the onset of the project.

The AID-financed facilities were generally under-utilized. Although the larger research institutes at Maros and Banjarbaru were being used to some extent, other facilities were practically unused. Delays in commodity procurement and delivery (discussed later in this report) and the availability of trained staff caused most of this under-utilization. For example, two research stations, which had been completed for approximately two years, had not received the planned equipment. Another station was practically vacant because research staff was not available.

It was not known when the facilities would be fully staffed. The overseas training of researchers was conducted by another donor and was not monitored by the Mission. This training was for AARD's overall needs and was to supply researchers for this project and several other projects. However, the Mission's project officer did not know how many researchers would be provided to this project or when they would be provided. Another reason given for the staffing problem was that most of the AID-financed facilities were in rural areas. The GOI project leader stated that it was difficult to find qualified people willing to relocate to rural research facilities because they would have to move from more desirable urban areas and they believed that relocating from the main cities, Jakarta and Bogor, would hurt their careers. The GOI project leader stated that there was no plan or timetable for staffing the AID-financed research facilities, but the GOI intended eventually to staff all of the facilities.

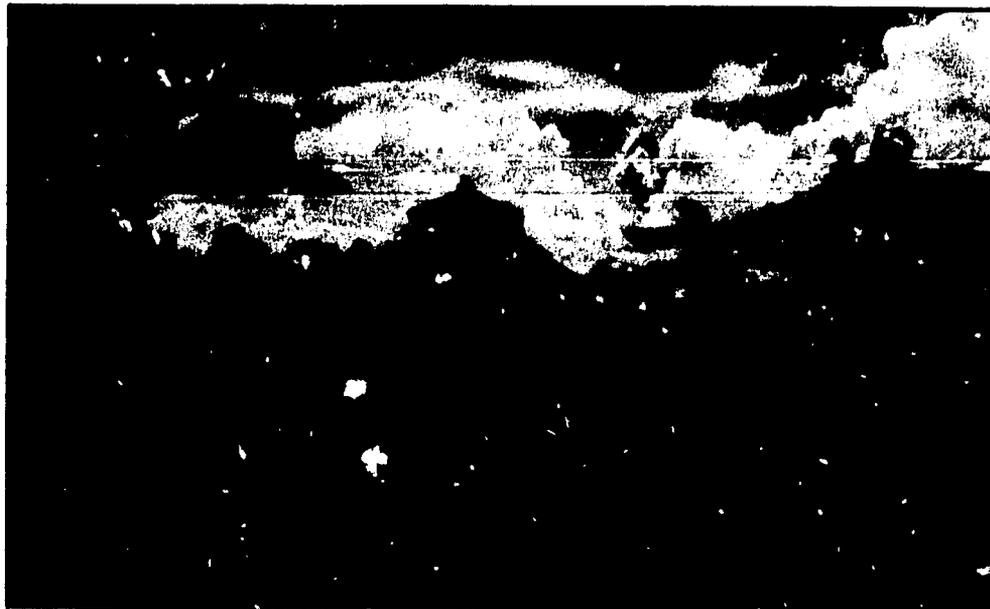
Examples of under-utilization and lack of maintenance at Banjarbaru, Kalimantan; Jeneponto, Sulawesi; and Bogor, West Java are discussed below.

Banjarbaru Animal Disease Center, Kalimantan - Although the Center was completed in July 1987, it was operating at a minimal level. A.I.D. reimbursed the GOI about \$112,000 in September 1987 for laboratories, office space, three animal barns, 22 housing units and a maintenance building. The animal barns had not been used, weeds had grown up around them and one of the barns was infested with carpenter bees that had eaten large holes in the framework. Most of the laboratories were vacant and were used for storage. The few pieces of laboratory equipment being used had been borrowed from another GOI facility. Officials stated that the Center was to receive laboratory equipment under the second commodity procurement.

Since its acceptance, the staff had conducted very little research at this center. The staff level was to be 19 qualified researchers; however, at the time of the audit there were only five researchers and some office staff assigned. The Center manager stated that some researchers were currently in training, but he did not know how many would be assigned to this center or when they would be available. Also, the Mission's project officer did not know when the Center would be fully staffed.

Jeneponto, Sulawesi Horticulture Station - This station was completed in April 1986, and the GOI was reimbursed about \$85,000. The facility consisted of laboratories, an administration building, housing units, green houses, shop and maintenance buildings and a drying floor. Except for the housing units, these facilities generally were not being used. Electricity and water were not available for the research facilities because the electric generator needed repairs. The generator was needed to supply electricity to the water pump, which was reportedly operational. According to the station manager, very little research could be done without water. Also, the station had very little equipment for conducting research. While some staff was assigned, they needed laboratory equipment to conduct their research activities. The equipment needed for this site was to be provided in the second commodity procurement.

**Vacant Buildings - Animal Disease Center
Banjarbaru, Kalimantan**



Completed July 1986 - Three Vacant Barns

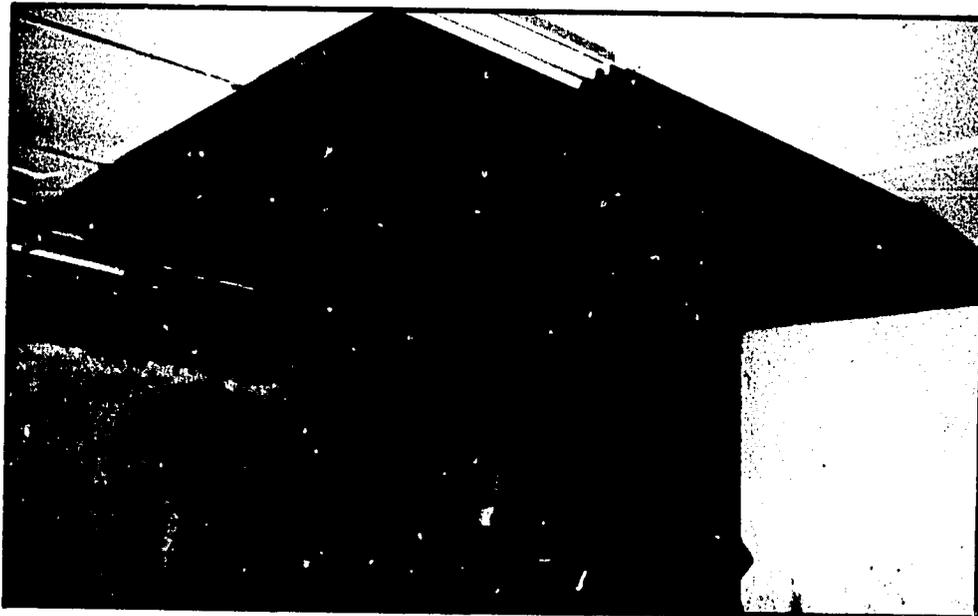


Unused Stalls in Central Barn

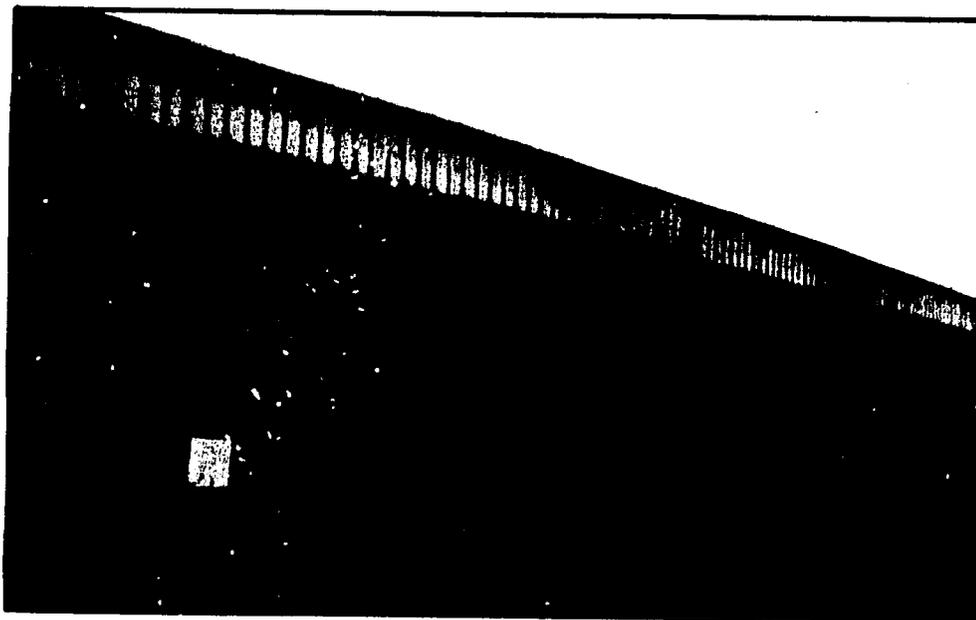
Central Research Institute, Bogor - Although two phases of construction at this food crop institute were completed in January 1985, no research was being conducted. A.I.D. reimbursed the GOI about \$576,000 for laboratory buildings, offices, an auditorium, maintenance shop buildings and green houses. The Institute manager stated that the researchers did not want to work in these buildings because the buildings looked bad. The researchers to be assigned to this facility were located in other buildings around the city. Two of the AID-financed buildings were vacant, and the maintenance shop was in need of repair. A large section of the ceiling in one end of this building had collapsed due to termite infestation. Many of the windows were broken and several of the doors were about to fall off the hinges. The Institute manager stated that these facilities would be used as soon as possible. The GOI planned to consolidate basic food crop research at this site when construction of a new laboratory building was completed in 1990.

A.I.D. has spent approximately \$1.8 million of the \$4.3 million provided for the construction phase of this project. Some of the facilities visited were not being utilized while others were operating at minimal levels. Most of the facilities were in need of repairs and maintenance. Plans to make full use of the facilities, including providing research staff and budgeting for maintenance and repairs, did not exist.

**Building in Need of Repair
Central Research Institute, Bogor, Java**



Ceiling of Shop Building in Need of Repair



Partially used Shop Building Completed in January 1985

Management Comments

A Master Research Plan was developed in 1989 which addresses staffing; estimated budgets for replacement, repair and maintenance of building and equipment and projected research activity for all food crop research institutes until 1994. From this Plan information will be extracted focusing only on AID-financed buildings and equipment. This information will be used to develop an AID-specific plan for staffing, equipping and maintaining AID-financed building and maintaining AID-financed equipment.

Office of the Inspector General Comments

The Mission plan of action is responsive to Recommendation No. 3, which is resolved and can be closed once the AID-specific plan has been completed and approved.

Most of the Commodities Were Not Being Used

Out of a \$1 million sample of delivered commodities, 75 percent were not being utilized because they were either not installed, no longer needed, or inappropriate for the intended purpose. Nothing had been done about this because project managers did not know the extent that commodities were not being used. Commodity utilization was not monitored as required by a Mission Order and A.I.D. guidance. Also, about 46 percent of the commodities were not yet properly marked showing that they were provided by A.I.D. As a result the assistance provided was not being effectively utilized, and publicity requirements were not being met.

Recommendation No. 4

We recommend that USAID/Indonesia

- a. reviews the current and anticipated use of under-utilized commodities to determine if the commodities should be transferred to other research facilities or USAID projects,**
- b. develops, in cooperation with the Government of Indonesia, a commodity utilization reporting and monitoring system which identifies the commodities by type, location, and condition; tracks their use; and provides for periodic updates and**
- c. ensures that unmarked commodities are properly identified with the A.I.D. emblem.**

The commodity budget for the project was \$5.1 million as of September 30, 1989. Commodity procurement was to be closely coordinated with construction activities and was planned to be completed by December 1986. Procurement actions were divided into three parts. As of September 30, 1989, most of the commodities from the first procurement had been delivered, supply contracts had been signed for the second procurement but no

commodities had been delivered, and the third procurement was being planned.

The present AARD project leader and Mission project officer were not responsible for the original needs assessment for commodities at the research facilities. The technical assistance contractor, whose contract ended in 1986, developed the commodity lists. According to the project officer, these commodity lists were the basis for the first and second procurements with adjustments for items no longer available. Commodity lists for the third procurement were to be developed by AARD.

The loan agreement, sections B.3(a) and B.5(b), requires the GOI to establish systems for ensuring that commodities financed under the project are effectively used for project purposes and for recording the arrival and disposition of commodities. Monitoring AID-financed major equipment is also required by USAID Order 1500.2, dated June 16, 1988, which reiterates requirements established in A.I.D. Handbook 15. This Mission Order assigns responsibility for monitoring major equipment to project officers. The Order allows the project officer to either

verify that the GOI implementing agency's system meets A.I.D. standards for monitoring equipment utilization and periodically spot check that system, or

identify major items of equipment in his/her project and recommend a system for periodically tracking their utilization.

The Order required the project officer to ensure that the system selected was adequate and that the equipment supplied was properly marked as supplied by A.I.D.

The project officer had not complied with the Mission Order nor made sure that AARD had complied with the terms of the loan agreement. Through field visits and correspondence with the AARD project leader and the technical assistance contractor, the Mission project officer was aware that some commodities, such as tractors and threshers, were not being used.

However, the project officer neither verified that the AARD commodity management system met A.I.D. standards nor identified major items of equipment and recommended a system for tracking their use. In fact, a commodity management system meeting A.I.D. standards did not exist.

The audit found that 113, or 75 percent, of the 151 items in the audit sample were not being used. The audit sample included delivered items, valued at more than \$1,500 each, totaling about \$1.0 million. The following table shows the status of commodity use by category.

Type of Commodity	<u>Utilization of Commodities Sampled and A.I.D. Marking</u>							
			<u>In Use</u>		<u>Not In Use</u>		A.I.D. Marking	
	<u>No. of Units</u>	<u>Total Value</u>	<u>No. of Units</u>	<u>Total Value</u>	<u>No. of Units</u>	<u>Total Value</u>	<u>No. of Units</u>	
							<u>YES</u>	<u>NO</u>
Tractors	8	\$ 95,050	5	\$ 59,470	3	\$ 35,580	6	2
Farm Equipment	55	147,575	5	9,675	50	137,900	14	41
Threshers/ Seed Cleaners	15	100,184			15	100,184	11	4
Laboratory Equipment	38	339,523	13	41,228	25	298,295	23	15
Administrative Equipment	30	190,356	15	87,688	15	102,668	22	8
Generator Sets	4	120,732			4	120,732	4	
Water Softener	<u>1</u>	<u>32,035</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>32,035</u>	<u>1</u>	<u>—</u>
TOTAL	<u>151</u>	<u>\$1,025,455</u>	<u>38</u>	<u>\$ 198,061</u>	<u>113</u>	<u>\$ 827,394</u>	<u>81</u>	<u>70</u>

Various reasons were given by research facility personnel for why individual items were not used. Generally, the items provided were either inappropriate for the intended use, no longer needed, not installed, or lacked staff to operate them. Some of the items had been placed in storage. These conditions were not reported to the AARD project leader or to the Mission project officer by the research facility personnel, who gave the following explanations for why the commodities were not being used.

Tractors - Three tractors valued at about \$35,000 could not be used at Banjarbaru (one) and Maros (two) research institutes because they were too large and heavy for the soft soils. The tractors sank into the soil when attempts were made to use them. (See Picture p. 25)

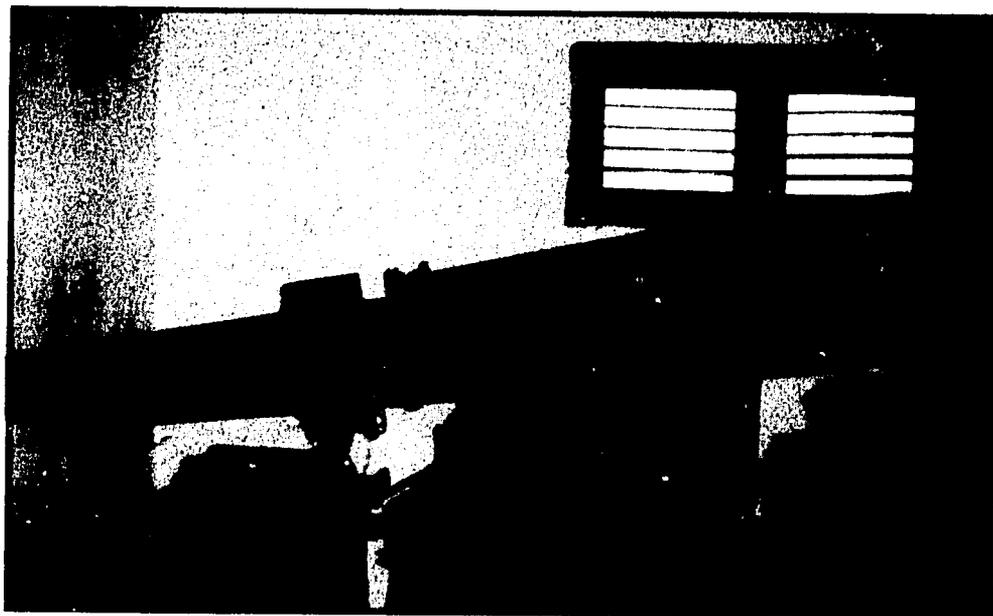
Farm Equipment - This category included attachments for the tractors and field water (axial) pumps. At Bogor, Banjarbaru and Maros, much of this equipment was not used because it was larger than needed. At Bogor and Banjarbaru the tractor attachments were too large for the tractors supplied. At Maros, neither tractors nor the attachments could be used because they were too heavy for the soils. Of 32 axial pumps provided, only two had been used because the capacity of these pumps was greater than needed. Also, the pumps were not needed at Bogor's experimental farm because the farm had an adequate irrigation system. (See Picture p. 25)

Threshers and Seed Cleaners - The capacity of these items was greater than what the research facility could reasonably use. Research plots produce small quantities of a crop for analysis, but the equipment provided was for processing much larger amounts of crops. Also, the seed cleaners did not have screens for rice, the common crop in most areas. Consequently, these items were left in the storage area. (See Pictures p. 26)

**Unused Tractors and Attachments
and Water Pumps**

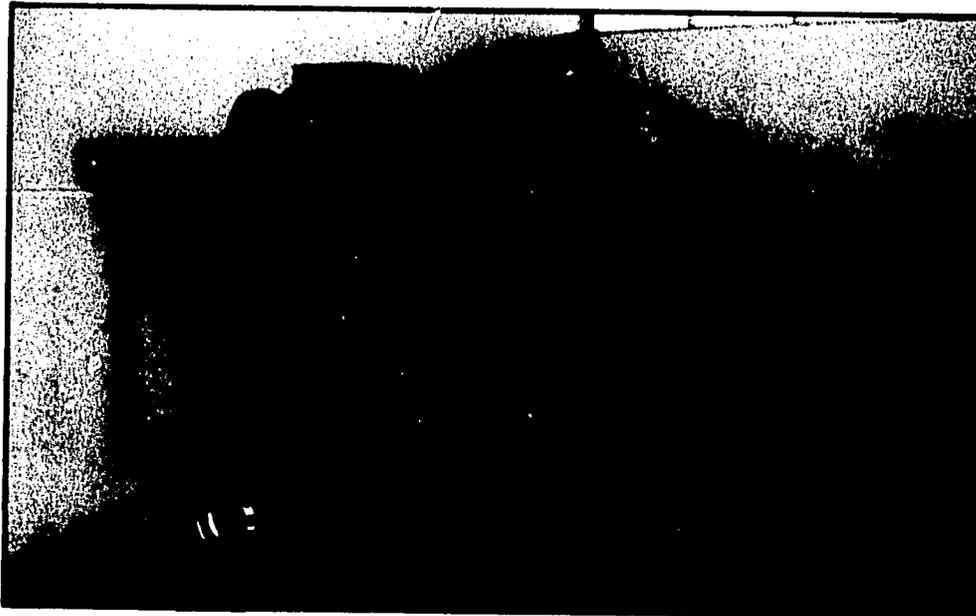


**Tractor 5610, Value \$24,325
Received 03/22/89 - Maros, Sulawesi**



**Two Axial Pumps - 6" diameter, Value \$1,700 each
Received 04/21/88 - Bogor, Java**

**Unused Threshers and Seed Cleaners
Banjarbaru, Kalimantan**

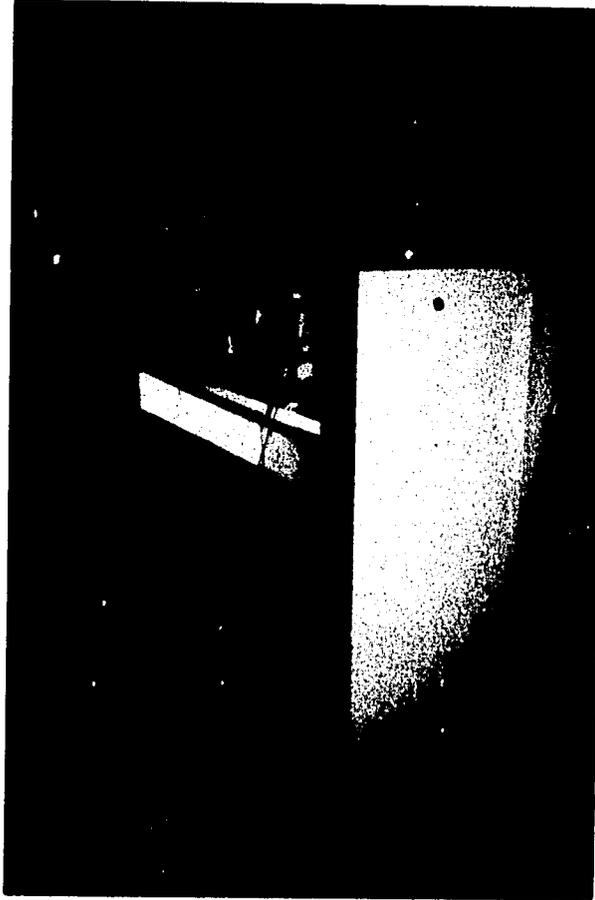


**Threshers - Value \$6,500 each
Received 11/08/87**



**Seed Cleaners - Value \$4,949 each
Received 06/27/88**

**Equipment Not Installed
Maros, Sulawesi**



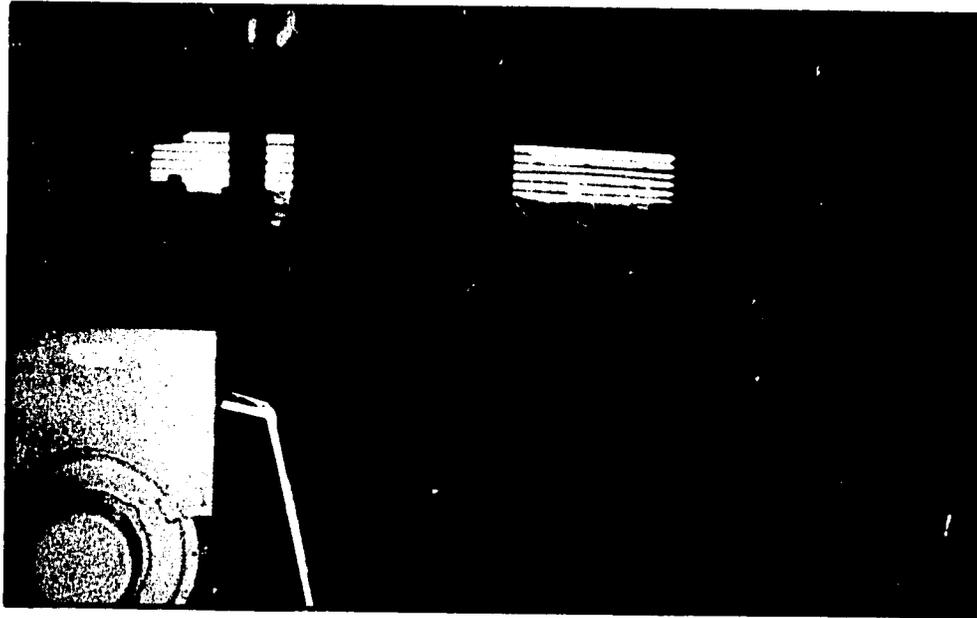
**Exhaust System for Laboratory
Value \$4,450
Received 12/12/88**

**Equipment Not In Use
Gondol, Bali**



**Liquid Chromatograph Set (Analyzer)
Value \$175,000
Received 07/25/88**

**Unused and Incomplete Generator Sets
Banjarbaru, Kalimantan**



**170 KW Generators - Value \$60,336
Received October 1987**



**Portal for 10,000, Liter Fuel Tank
Tank Not Installed, Tank's Value \$5,600**

Laboratory Equipment - Most of this equipment was either not installed or not being used. For example, a \$175,000 liquid chromatograph (Analyzer) was to be used in conjunction with a \$19,000 laboratory pellet mill, which had not been installed. Also, the chemicals needed to operate the analyzer were not available. Thus, the analyzer was set up in the laboratory but not used. (See Pictures p. 27 & 28)

Generators - The original facility plans for Banjarbaru and Maros called for generators and these were provided. However, these were not being used because the institutes had been connected to the area electrical grid which supplied a stable power source. (See Pictures p. 29).

These AID-financed commodities were to be marked with the A.I.D. emblem. In the loan agreement, the GOI had agreed to mark these goods as financed by A.I.D. While the commodity supply contracts required that the suppliers attach the A.I.D. emblem, this was not done. Mission project officials' trip reports, covering the period November 1987 through August 1989, disclosed that commodities were not properly marked. These reports disclosed that Mission staff marked some items. Notwithstanding their actions, the audit found that 46 percent of the items sampled were still not properly marked.

The extent to which commodities were not in use was unknown to project managers because the AARD project leader and the Mission project officer did not have an adequate method for monitoring the delivery and use of AID-financed commodities. Also, the original needs assessment resulted in inappropriate commodities being provided to some research facilities. The Mission and AARD need to review the current and anticipated use of the under-utilized commodities, valued at about \$827,000, to determine if the commodities should be transferred to other research facilities or A.I.D. projects. The Mission and AARD should develop a commodity utilization reporting system which meets A.I.D. standards for commodity accountability and identifies any unneeded or unusable commodities. It should identify the type, value and location of major items, provide for periodic adjustments showing receipts, transfers and disposals, and indicate the use being made of the items. Also, the reporting system should certify that the items are marked as supplied by A.I.D.

Management Comments

The current technical assistance contractor visited all research institutes that had received project-financed equipment during late 1989 and early 1990. The contractor inspected equipment and made recommendations, including the relocation of some equipment. The GOI has relocated a portion of the equipment to sub-stations as originally intended and moved some items to locations where they can be better utilized. The contractor will provide a consultant to inspect, assemble and install all project-financed laboratory equipment between June 1990 and October 1990. The consultant will make recommendations regarding the need for repair or transfer of additional equipment items.

Project Implementation Letter No. 211, dated January 24, 1990, established a system for monitoring all equipment having a per unit value of \$1,000 or more. Station directors were requested to state the condition of listed items and whether they were installed, in use and marked with the A.I.D. emblem. A partial response has been received.

The work requirements of a Mission foreign service national employee have been revised to require that this employee visit all project sites, which have received project-financed equipment, to ascertain compliance with source and origin requirements and ensure that equipment is properly marked with the A.I.D. emblem. Visits by the project officer will provide further assurance that source, origin and marking requirements have been met.

Office of the Inspector General Comments

The Mission plan of action is responsive to Recommendation No. 4, which is resolved. Part a can be closed once the activities of the consultant are completed regarding the transfer of additional items of equipment. Part b can be closed once the initial response by the station directors is complete. Part c can be closed once the marking of AID-financed equipment is substantially complete.

Host-Country Contributions Were Not Provided as Planned

The GOI agreed to contribute about \$22.8 million, or 41 percent of the project cost. The Mission is required by A.I.D. regulations to monitor host-country contributions and ensure that the terms of the project agreements are complied with. Although the GOI was not providing funds necessary to keep the project operating at planned levels, the Mission had not taken action to ensure that the contribution agreed to by the GOI was provided. Further, the GOI had not provided about \$1.0 million in local currency from the sale of P.L. 480 Title I commodities as agreed. As a result, project success was in jeopardy because there was a lack of operating funds.

Recommendation No. 5

We recommend that USAID/Indonesia

- a. verifies the host-country contribution reported by the Government of Indonesia and identifies the shortfall to date, including that attributable to P.L. 480 Title I sales proceeds and**
- b. takes action to ensure that adequate financing is provided by the Government of Indonesia so that AID-provided facilities and equipment can be adequately maintained and effectively utilized.**

While the August 1985 project paper amendment stated that the GOI should provide \$22.8 million in cash contributions to the project, or 41 percent of the planned project cost, the loan and grant amendments provided that the GOI contributions could be borne on an in-kind basis. Included in the GOI planned contribution was \$5.0 million in local currency proceeds from the sale of P.L. 480 Title I commodities. Subsequently, the GOI agreed to increase this contribution to about \$5.8 million in local currency proceeds through two separate P.L. 480 Title I sales agreements.

A.I.D. Handbook 3 requires the Mission to monitor host-country contributions over the life of the project. The lack of such monitoring can undermine the

success of a project. However, the Mission did not know how much of the \$22.8 million had been contributed. Although the GOI was identifying its contribution in an annual report, the Mission had not established a system for monitoring the GOI's contribution to the project.

The GOI had agreed to provide a total of \$22.8 million over the life of the project. The project paper and its amendment estimated the annual contributions by fiscal year. As of March 1987, the GOI's contribution to the project was about \$4.9 million below the planned levels. According to the financial plan in the original project agreement and its amendment, the GOI contribution through March 1987 should have been about \$18.1 million, but according to a GOI financial report, only \$13.2 million had been provided. The project officer was not aware of the shortfall but said the GOI, as a whole, was facing budget reductions.

A March 1987 GOI financial report indicated that P.L. 480 funds were included in the GOI contribution. For Indonesian fiscal year 1985/86 and 1986/87, the GOI was to provide P.L. 480 funds in the amount of \$5.0 million and \$0.8 million, respectively. According to GOI records, about \$4.0 million of the P.L. 480 funds were spent in fiscal year 1985/86 and about \$0.8 million was spent in fiscal year 1986/87. Consequently, the GOI needed to provide about \$1.0 million in additional P.L. 480 funds to the project.

According to Mission personnel, host-country contributions were generally not monitored in the past. However, the Mission has taken steps to address this issue. For example, the Office of Food for Peace has begun monitoring P.L. 480 proceeds in response to a February 1989 Mission Order assigning it this responsibility. Also, the Mission Controller has begun collecting information on GOI contributions during its financial reviews, but this project was not reviewed because of our scheduled audit.

The project has suffered from a lack of operating funds. Without Mission monitoring of host-country contributions, the GOI may not provide the agreed to levels of funding. Without sufficient GOI funding the progress of this project may continue to be slow and its success may be jeopardized.

Management Comments

The Mission states that the loan and grant agreements provide that the GOI should provide \$22.8 million, or 41 percent of project costs, while the Foreign Assistance Act requires only a 25 percent contribution. The Mission also states that the GOI contribution, identified as \$17 million through Indonesian fiscal year 1989, is well above the 25 percent requirement. The Mission believes that the GOI will continue to make contributions so that its financial commitment to this project is met.

The Mission is of the opinion that it is aware of the GOI contribution and that at least 20 percent of the \$17 million contributed was closely monitored by project staff because it represents the GOI share of reimbursements of the fixed-amount reimbursement payments for facility construction. In addition the Mission Controllers Office has begun collecting information on GOI contributions for all activities, including P.L. 480 Title I proceeds, during its project financial reviews.

Office of the Inspector General Comments

The project agreements state that the GOI will provide \$22.8 million as its contribution toward the success of this project. This agreed to contribution will not be reached as GOI budgeted contributions have decreased dramatically from over \$5 million in Indonesian fiscal year 1986 to \$1 million, \$700,000 and \$500,000 for subsequent fiscal years through 1989. Also, the GOI has reported that expenditures for the period through fiscal year 1989 are \$3.5 million less than the \$17 million budgeted. Therefore, it is likely that a substantial shortfall will exist in the GOI contribution at project's end. This shortfall has impacted on the GOI's ability to conduct research and utilize and maintain facilities and equipment provided under this project. Therefore, we believe more can be done to verify the reported contribution, monitor existing contributions, and assist the GOI in developing adequate budgeting for the effective utilization of AID-provided assistance. Accordingly, Recommendation No. 5 remains open pending agreement on a suitable plan of action.

Some Commodities Provided Did Not Meet Source and Origin Requirements

The loan agreement prohibits the procurement of commodities from developed countries other than the United States. However, about \$200,000 in commodities with apparent origins in ineligible countries were procured with project funds. The Mission had not conducted compliance tests on the delivered commodities to ensure that commodities were from appropriate sources or origins. If these commodities are from ineligible sources or origins, A.I.D.'s funds were not used as intended for project purposes.

Recommendation No. 6

We recommend that USAID/Indonesia

- a. conducts compliance tests to ensure that commodities provided for this project meet A.I.D. source and origin requirements and
- b. reviews the \$200,000 in commodities identified as having questionable sources or origins and take appropriate action.

Section 7.1 of the project loan agreement requires that commodities financed by the project have their source and origin in countries included in country code 941 of the A.I.D. Geographic Code Book. This code identifies the United States and free world countries, except developed countries, as acceptable sources and origins for AID-financed commodities. The loan agreement further identified Indonesia as an eligible source for commodities procured for the project. A.I.D. Handbook 1, Supplement B establishes the definitions for source and origin. Source is defined as the country from which the commodity was shipped or the host country if the commodity is located therein at the time of purchase. Origin is defined as the country or area in which the commodity was mined, grown or produced. A commodity is produced when, through manufacturing, processing or substantial and major assembling of components, a commercially recognized new commodity results that is substantially different in basic characteristics or in purpose or utility from its components. To assure that the origin rule benefits the producing

country, A.I.D. established a componentry rule which in essence requires that components from ineligible free world countries not exceed 50 percent of the produced commodity's cost.

As of September 30, 1989, \$5.1 million was budgeted for the purchase of commodities other than vehicles, and commodity procurement was divided into three parts. The first procurement for about \$2.1 million in commodities was started with a Procurement Service Agent (PSA) under a host-country contract, but it was eventually accomplished through 26 host-country contracts. The second procurement for about \$1.9 million was being done through a PSA under direct contract with the Mission. The use of a PSA, according to Mission officials, provided greater assurance of compliance with A.I.D. procurement regulations. The third procurement was expected to cost about \$700,000 and was in the initial planning stages.

Although commodity contracts and purchase invoices indicated that the source and origin of the commodities was the United States or Indonesia, 14 tractors and two backhoe attachments were identified as being made in Japan and Great Britain, respectively (See Exhibit 2). The 14 tractors had "made in Japan" embossed on the side and the two backhoe attachments had "made in England" embossed on the side. These two countries are not eligible as a source or origin for commodities under geographic code 941.

A.I.D. Handbook 1B, Chapter 5b4, provides that the code 941 origin requirement can be waived if the commodity is not available from countries included in the authorized geographic code. Also, a source and origin waiver is required for any individual transaction whose value exceeds \$5,000, excluding transportation costs. While the Mission issued source and origin waivers for some commodities, no waivers were issued for the commodities identified above.

The Mission relied upon the GOI, the technical assistance contractors and the suppliers to attest to the A.I.D. source and origin requirements. Both the supplier contracts and invoices certified the eligibility of these commodities. The project officer had not conducted compliance tests on the commodities delivered. The supplier of the tractors indicated that the source was the

United States by identifying these items as "Free on Board" (FOB) U.S. ports. The supplier of the backhoes indicated these items were FOB Indonesia. Because sufficient information was not available, the auditors could not determine if componentry rules were met.

If the AID-financed commodities were from ineligible sources or origins, A.I.D. may obtain refunds from either the GOI or the supplier. Section D.6 of the loan agreement provides that A.I.D. can obtain a refund from the GOI if disbursements made under the project are not supported by valid documentation. Also, the agreement provides that A.I.D. may obtain refunds from suppliers if goods financed do not conform to specifications.

The project paid for commodities, valued at about \$200,000, which apparently do not comply with source and origin requirements of the loan agreement. Therefore, project funds may have been used to procure ineligible items. The Mission needs to determine if a refund from the Government of Indonesia or the suppliers is appropriate for these items. Also, the Mission needs to ensure itself that the balance of commodities delivered under this project meet source and origin requirements.

Management Comments

As indicated in its response to Recommendation No. 4, the Mission has revised the work requirements of a Mission foreign service national employee to include determining, to the extent possible, that delivered commodities meet source and origin requirements. For the items identified in our report, the Mission has requested AID/Washington assistance in determining if the 14 tractors meet source/origin requirements based on componentry rules. The two backhoe attachments will be checked locally to determine their exact source and origin.

Office of the Inspector General Comments

The Mission plan of action is responsive to Recommendation No. 6, which is resolved. Part a can be closed once the Mission employee has substantially completed his source and origin checks. Part b can be closed once

appropriate action has been taken for the 16 items identified in the report which are determined to not meet source and origin requirements.

Compliance

The audit identified two instances of noncompliance with the terms of the project agreements. Finding No. 5 identifies an apparent shortfall in the GOI's commitment to provide \$22.8 million as its contribution toward the success of this project. Finding Number 6 identifies about \$200,000 worth of equipment which apparently does not meet the source and origin requirements included in the loan agreement. We limited our review of compliance to the issues in this report; nothing came to our attention that would indicate noncompliance in other areas.

Internal Controls

USAID/Indonesia's management controls need to be improved in several areas. Finding No. 2 discusses the need for improved monitoring of project progress. Finding No. 4 discusses the need for the Mission to monitor the use and marking of AID-financed commodities and enforce its own Mission Order. The audit found that about 40 percent of the items tested were not marked with the A.I.D. emblem. Finding No. 5 discusses the USAID's need to monitor host-country contributions. Finding No. 6 discusses the need to ensure that A.I.D. source and/or origin requirements are followed. The review of internal controls was limited to the issues discussed in this report.

EXHIBIT 1

NARRATIVE SUMMARY

Program Goals:

To strengthen the agricultural research system's capacity to generate, test and disseminate advanced and economically appropriate technologies for food production by helping the systems cope with "second generation" institutional development problems.

Project Purpose:

1. Strengthening administration of research planning, coordination and evaluation.
2. Upgrading the management of facilities and support services.
3. Research on selected high-priority commodities and activities and on a few promising commodities and farming systems.

VERIFIABLE INDICATORS

Goal Measurements:

An improved research organization which encourages well conceived and executed research relevant to the farmer's needs and develops and transfers appropriate technology for the benefit of Indonesia's development.

End of Project Conditions:

1. A strong system of research administration that effectively sets objectives and research priorities and is systematically implementing, monitoring and evaluating research.
2. Improved management of research facilities and support services to create and maintain optimum conditions for research program activities.
3. A responsive research agenda which focuses resources on selected secondary crops commodities (maize, grain legumes and upland rice), and activities (seeds, biotechnology, soil management and economics) and tests the potential of several (e.g. hybrid rice, sorghum) promising commodities. A significant increase in research budgets are being provided for operational research costs.

MEANS OF VERIFICATION

1. Monitoring and Evaluation
2. Surveys and Studies.
3. Government Statistics.

1. Monitoring including participating in meetings, visiting facilities, ect.
2. Surveys and Studies.
3. Evaluations.

4. Strengthening linkages among AARD, the universities and the private sector to enhance research outputs.
5. Development of Indonesia's future agricultural research programs and policies.

4. Productive linkages in place to a number of regional universities and private sector companies.
5. An analysis of accomplishments and issues in agricultural research and a strategy developed for future program support.

Outputs:

1. Development of new varieties and technologies that will sustain high levels of rice production, and that will increase soybean, peanut and maize production.
2. Better knowledge of and contributions to agriculture from improved seed, biotechnology, soil management and economic analysis.
3. Better trained scientist working in project priority areas.
4. Better trained research administrators and facility managers.
5. Improved procedures in place for setting priorities, obligation of sufficient operational budgets, and planning and implementing research.

Magnitude of Outputs:

1. Significant increases in production of rice(3% yr), soybeans(6% yr), maize(5% yr), and peanuts(4% yr).
2. Specific research activities focused on seed production and supply, bio-technology, soil management and economic analysis implemented and evaluated.
3. Fifteen scientist complete M.S. degree programs abroad. Twenty five participants complete non-degree training abroad.
4. Five H.S. degrees completed in management fields. Seventy MM non-degree training abroad. Two hundred persons complete in-country training programs in research administration and facility management.
5. System wide improvement in research administration, but with emphasis on institutes with mandates for project supported commodities and activities. Increased rate of budget support to operational research costs in accordance with financial plan

1. Varieties and practices recommended, released and adopted
2. Government statistics.
3. Monitoring and evaluation.
4. Surveys and studies.

- | | |
|--|--|
| <p>6. improved management of selected research institutes through upgrading.</p> <p>7. Enhance linkages at the central and local level and between AARD, the universities, extension and the private sector in the planning and implementation of research programs.</p> <p>8. Comprehensive impact evaluation of agricultural research and policy paper on future projections of the agricultural sector.</p> | <p>6. Sukarami and Maros developed as station management and support services and training centers.</p> <p>7. A number of collaborative research activities completed. Representatives from universities and private sector participating in coordination of national commodity schemes.</p> <p>8. Two policy papers produced.</p> |
|--|--|

Inputs:

1. Research support for selected commodities and activities (transportation, per diem, supplies, equipment, labor wages).
2. Management support (same as above).
3. Technical assistance.
4. Training.

Quantity (value):

Amended Project Activities	
Technical Assistance	\$7.825
Commodities	.100
Vehicles	.150
Training	2.300
Commodities Res.	2.000
Special Studies	1.000
Contingency/Infl.	<u>.583</u>
	\$13,958

Monitoring and evaluation

EXHIBIT 2

Farm Equipment With Questionable Origins

<u>Description</u>	<u>No. of Units</u>	<u>Country of Origin</u>	<u>Amount</u>
Ford 1710 4 WD Tractor 16 1/2 HP	8	Japan	\$ 66,720
Ford 3910 2 WD Tractor 42 HP	1	Japan	15,550
Ford 3910 4 WD Tractor 42 HP	3	Japan	56,700
Ford 5610 4 WD Tractor 62 HP	2	Japan	48,650
Ditch King Three Point Hitch Backhoe	2	United Kingdom	<u>13,129</u>
TOTAL	<u>16</u>		<u>\$200,749</u>

ACTION: AID-6 INFO: AMB DCM AA ECON/10

VZCZCMIO160

PP RUEHML

DE RUEHJA #0293/01 1970853

16-JUL-90

TOR: 11:17

ZNR UUUUU ZZH

CHRG: AID

P 160843Z JUL 90

DIST: AID

FM AMEMBASSY JAKARTA

TO AMEMBASSY MANILA PRIORITY 2752

BT

UNCLAS SECTION 01 OF 06 JAKARTA 10293

AIDAC FOR USAID/RIG/A/M

E.O. 12356: N/A

SUBJECT: DRAFT REPORT: AUDIT OF INDONESIA'S APPLIED
AGRICULTURAL RESEARCH PROJECT

REF: RIG/EA-90-218 RECEIVED ON MAY 16, 1990

1. THE MISSION AGREES THAT THE DRAFT AUDIT REPORT IDENTIFIES AREAS WHERE IMPLEMENTATION OF THE APPLIED AGRICULTURAL RESEARCH PROJECT (AARP) CAN BE STRENGTHENED, PARTICULARLY IN THE AREAS OF COMMODITY UTILIZATION AND MARKING AND IN THE NEED TO DEVELOP COMPREHENSIVE IMPLEMENTATION PLANS FOR THE REMAINING TWO YEAR LIFE OF THE PROJECT. USAID/JAKARTA, HOWEVER, STRONGLY DISAGREES WITH THE CONCLUSIONS THAT "THE PROJECT WAS NOT BEING EFFECTIVELY IMPLEMENTED TO ACHIEVE ITS OBJECTIVES", THAT "OVERALL MONITORING OF THE PROJECT WAS INEFFECTIVE", AND THAT "THE PROJECT HAD MADE LIMITED PROGRESS TOWARD THE PROJECT'S OBJECTIVES AND WAS UNLIKELY TO ACHIEVE THEM BY PROJECTS END." IN DRAWING THESE CONCLUSIONS THE DRAFT AUDIT REPORT LOSES SIGHT OF THE OVERALL PROGRESS WHICH HAS BEEN MADE AND CONTINUES TO BE REACHED IN INDONESIAN RESEARCH. THE GOI QUESTIONS SOME OF THE GENERAL STATEMENTS MADE IN THIS REPORT AND FEELS THAT THEY WERE TAKEN OUT OF CONTEXT. THEY ALSO FELT THAT THE CONCLUSIONS DRAWN OF THE AGRICULTURAL RESEARCH SYSTEM IN GENERAL AND THIS PROJECT IN PARTICULAR ARE INCORRECT AND MISLEADING. WITHOUT SUBSTANTIAL CORRECTION TO SUBJECT DRAFT, WE DO NOT BELIEVE THAT THE FINAL REPORT WILL CONVEY A FAIR IMPRESSION TO THE READER OF THE ADEQUACY OF THIS USAID AND THE GOVERNMENT OF INDONESIA EFFORTS IN MANAGING AND UTILIZING AARP RESOURCES PRUDENTLY, ECONOMICALLY, AND EFFICIENTLY.

IN AN EFFORT TO AVOID ANY POSSIBLE MISUNDERSTANDINGS REGARDING THE MANAGEMENT AND ACCOMPLISHMENTS OF THE AARP, WE PROVIDE THE FOLLOWING COMMENTS.

2. SINCE ITS INCEPTION IN 1980, THE APPLIED AGRICULTURAL RESEARCH PROJECT HAS BEEN PART OF A LARGE, LONG-TERM MULTI-DONOR EFFORT TO SET UP AN AGRICULTURAL RESEARCH SYSTEM. THE ORIGINAL PROJECT PAPER, IN ITS SUMMARY FINDINGS CONCLUDED THAT "IT (THE AARP)

45

COMPLEMENTS AND WILL BE SUPPORTED BY OTHER AID AND IBRD PROJECTS TO IMPROVE AGRICULTURAL PRODUCTION IN INDONESIA". THIS STATEMENT HAS SINCE BEEN PROVEN CORRECT IN THAT, SINCE 1980, THE GOI AGENCY RESPONSIBLE FOR THE EXECUTION OF THE PROJECT (THE AGENCY FOR AGRICULTURAL RESEARCH AND DEVELOPMENT (AARD)) HAS BEEN INVOLVED WITH OVER 30 SEPARATE PROJECTS, FROM 6 INDIVIDUAL BILATERAL OR MULTILATERAL DONORS, WITH A TOTAL VALUE OF OVER \$215 MILLION. THESE PROJECTS HAVE ALL FOCUSED ON THE DEVELOPMENT OF AARD IN GENERAL OR HAVE ADDRESSED SPECIFIC PROBLEMS IN AGRICULTURAL RESEARCH AND PRODUCTION. AMENDMENT NO. 1 TO THE APPLIED AGRICULTURAL RESEARCH PROJECT, SIGNED IN 1985, FURTHER DISCUSSED THE INVOLVEMENT OF OTHER DONORS IN AGRICULTURAL RESEARCH AND CONCLUDED THAT: "ACTIVITIES PROPOSED UNDER THIS PROJECT AMENDMENT ARE COMPLEMENTARY TO AND NOT DUPLICATIVE OF OTHER DONOR EFFORTS". IT IS BECAUSE OF THIS COLLABORATION WITH OTHER DONORS TO IMPROVE THE AGRICULTURAL RESEARCH NETWORK THAT THE IMPACT OF THIS INDIVIDUAL PROJECT, EVALUATED ALONE, IS DIFFICULT TO MEASURE. AS WAS ENVISIONED, THE AARP MUST BE SEEN AS PART OF AN OVERALL EFFORT TO IMPROVE AGRICULTURAL RESEARCH (AND INDIRECTLY FOOD PRODUCTION) AND MEASURED IN CONJUNCTION WITH THE ACCOMPLISHMENTS OF OTHER DONOR AND GOI EFFORTS IN THIS AREA. HOWEVER, IN THE PROJECT LOGICAL FRAMEWORK AS REVISED IN PROJECT AMENDMENT NO. 1, THE PROGRAM GOAL IS TO "TO STRENGTHEN THE AGRICULTURAL RESEARCH SYSTEM'S CAPACITY TO GENERATE, TEST AND DISSEMINATE TECHNOLOGIES FOR FOOD PRODUCTION BY HELPING THE SYSTEM COPE WITH: "SECOND GENERATION" INSTITUTIONAL DEVELOPMENT PROBLEMS". THE PROJECT PURPOSES, END OF PROJECT STATUS INDICATORS AND OUTPUTS ARTICULATE A SET OF OBJECTIVES THAT WILL MEET THAT GOAL. A MIDTERM EVALUATION OF THIS ACTIVITY WAS CONDUCTED IN AUGUST-OCTOBER, 1989. IN ADDITION TO EXAMINING SELECTED PROJECT INPUTS AND OUTPUTS, THE EVALUATION TEAM WAS REQUESTED TO EXAMINE THE PROJECT LOGICAL FRAMEWORK AND DETERMINE IF IT WAS ADEQUATE, IF CHANGES WERE REQUIRED AND IF PURPOSE LEVEL OBJECTIVES WERE BEING MET. THE EVALUATION TEAM STATED THAT ALTHOUGH THE CAPACITY OF THE AARD AND THE CONTRACTORS TO ACHIEVE THE GOALS OF THE PROJECT WAS BEING STRAINED, THE OBJECTIVES OF THE PROJECT COULD BE ACHIEVED. IN ADDITION THE TEAM STATED THAT THE DIFFICULTIES INVOLVED BT

-46'

IN MEETING THE PROJECT'S GOALS OR PURPOSE DID NOT JUSTIFY RESTATING OR CHANGING THE PROJECT OBJECTIVES.

IN FACT, IT IS CLEAR THAT SUBSTANTIAL PROGRESS HAS BEEN MADE IN MEETING THE OBJECTIVES AS STATED ON PAGE 1 OF THE DRAFT AUDIT EXECUTIVE REPORT SUMMARY. RESEARCH PLANNING, COORDINATION AND EVALUATION HAS BEEN STRENGTHENED AS REFLECTED IN THE PREPARATION OF A MASTER RESEARCH PLAN, THE ESTABLISHMENT, UNDER AARP AUSPICES, OF A MANAGEMENT INFORMATION SYSTEM (MIS) AND THE REESTABLISHMENT OF THE CENTER FOR AGRICULTURAL RESEARCH PROGRAMMING (CARP) WITHIN AARD. THE PURPOSE OF THE MIS IS TO ASSIST AARD IN THE DEVELOPMENT OF AND USE OF AN APPROPRIATE MANAGEMENT INFORMATION SYSTEM WHICH OFFICIALS CAN USE TO PLAN AND MONITOR THE PROGRAMS, FINANCES, PERSONNEL, AND MATERIALS INVOLVED IN AGRICULTURAL RESEARCH. THE FUNCTIONS OF THE CARP ARE, AMONG OTHERS: TO COLLECT, PROCESS AND EVALUATE DATA AND STATISTICAL INFORMATION ON AGRICULTURAL RESEARCH AND DEVELOPMENT; TO FORMULATE PROGRAMS AND PROJECTS, INCLUDING BUDGETING FOR AGRICULTURAL RESEARCH; TO EVALUATE AND MONITOR PROGRAM AND PROJECT IMPLEMENTATION AND; TO EVALUATE BENEFITS AND ANALYSIS OF RESEARCH POTENTIAL TO ASSIST IN ESTABLISHING FUTURE RESEARCH PRIORITIES.

FACILITIES AND SUPPORT SERVICES OF THE AARD HAVE BEEN UPGRADED UNDER THE AARP THROUGH THE CONSTRUCTION OF LABORATORY AND RESEARCH FACILITIES AT 27 SITES IN INDONESIA. THE PROCUREMENT OF USDOL 3.6 MILLION OF AARP FINANCED COMMODITIES WILL HELP MAKE THESE FACILITIES FUNCTIONAL. LONG AND SHORT TERM TRAINING HAS BEEN RECEIVED BY NUMEROUS AARD SCIENTISTS. OVER 175 INDIVIDUALS HAVE RECEIVED AARP FUNDED SHORT TERM TRAINING ABROAD AND THE MISSION MAINTAINS THE NAMES OF THESE INDIVIDUALS AND THE LOCATIONS TO WHICH THEY WERE ASSIGNED UPON RETURNING FROM THIS TRAINING. SHOULD IT BE NECESSARY TO TRACK THE PRESENT LOCATION, WORK ACTIVITIES OR EMPLOYMENT STATUS, OF THESE INDIVIDUALS OR ANY PROFESSIONAL EMPLOYED BY AARD, THIS INFORMATION MAY BE OBTAINED BY USAID AND THE GOI BY USING THE MANAGEMENT INFORMATION SYSTEM (THE MISSION ACKNOWLEDGES THAT OTHER DONORS, AS STATED IN THE DRAFT AUDIT REPORT, ARE PROVIDING LONG TERM TRAINING TO AARD SCIENTISTS AND CONFIRMS THAT IT WAS NEVER ENVISIONED FOR ANY OF THESE TRAINED SCIENTISTS TO BE "ASSIGNED" TO THE AARP. THE ONLY AARD EMPLOYEES "ASSIGNED" TO THE AARP ARE THE GOI PROJECT MANAGER AND HIS IMMEDIATE SUPPORT STAFF AND NO ADDITIONAL GOI PERSONNEL HAVE BEEN IDENTIFIED AS BEING REQUIRED IN THAT OFFICE). A SYSTEM OF RESEARCH PLANNING IS IN PLACE WHICH PRIORITIZES AND COORDINATES RESEARCH ON MAIZE, GRAIN LEGUMES AND UPLAND RICE AND THE RESEARCH GRANT SYSTEM AS ESTABLISHED IN THE COMMODITY RESEARCH COMPONENT OF THE AARP HAS FUNDED OVER 100 INDIVIDUAL RESEARCH ACTIVITIES. RELATED PLANNING CONFERENCES HAVE STRENGTHENED LINKAGES AMONG THE GOI, PUBLIC UNIVERSITIES AND THE PRIVATE SECTOR.

- 47

AS A REFLECTION OF THE WORK OF ALL DONORS AND THE GCI IN AGRICULTURAL RESEARCH, THE TON/HECTARE YIELD OF MOST MAJOR FOOD CROPS, INCLUDING RICE, HAVE INCREASED SUBSTANTIALLY DURING THE LIFE OF THE AARP: RICE, 44 PERCENT; SOYBEANS, 31 PERCENT; MAIZE, 60 PERCENT; AND PEANUTS, 20 PERCENT. WITH THESE INCREASED YIELDS IN BASIC FOOD CROPS CORRESPONDING BENEFITS TO THE GOVERNMENT AND PEOPLE OF INDONESIA HAVE ALSO BEEN REALIZED. THE MID-TERM EVALUATION ADDS:

"...THE PROJECT ACTIVITIES ARE SLOWLY MOVING AARD FROM A LARGELY OPERATING AGENCY DOING RESEARCH AND SUBSEQUENTLY PUBLISHING IT, TO ONE MANAGING AND FINANCING RESEARCH BY OTHERS AS WELL AS DOING RESEARCH ITSELF. TESTING OF TECHNOLOGIES AND DEVELOPMENT OF APPLIED AGRICULTURAL TECHNIQUES WILL CONTINUE TO TAKE PLACE WITHIN AARD IN THE TRADITIONAL WAY. BUT INCREASINGLY IT WILL SUPPORT THROUGH FINANCING AS WELL AS VARIOUS FORMS OF TECHNICAL SUPPORT HYPOTHESIS TESTING ELSEWHERE IN THE AGRICULTURAL COMMUNITY." THIS DOCUMENT STATED THAT AARD LEADERSHIP AND GUIDANCE WILL HELP PROVIDE UNIVERSITIES AND PRIVATE SECTOR CONCERNS UNDER AARD SPONSORSHIP WITH PEER REVIEW, QUALITY CONTROL DISSEMINATION, AND PUBLICITY.

IN SHORT, THE MISSION FEELS THAT THE OVERALL PROGRESS MADE UNDER THIS PROJECT AND OTHER RELATED EFFORTS IN AGRICULTURAL RESEARCH PROVIDES A FIRM BASE FOR FUTURE
BT

RELATED RESEARCH PROJECTS AND POLICY PROGRAMS.

THEREFORE WE REQUEST YOU CONSIDER THE ABOVE IN RE-
STATING YOUR FINDINGS AND CONCLUSIONS AND/OR OF
INCORPORATING OUR COMMENTS AS PART OF THE FINAL REPORT.

3. TO BUILD ON THE ACCOMPLISHMENTS OF THE AARP, THE
MISSION CONCURS WITH THE NEED TO FORMULATE DETAILED
PROJECT PLANS AS THIS ACTIVITY ENTERS INTO ITS FINAL
YEARS AND EXERCISE GREATER VIGILANCE IN THE MARKING AND
UTILIZATION OF EQUIPMENT. THE MISSION PRESENTS THE
FOLLOWING PROPOSALS ON HOW THE SPECIFIC AUDIT
RECOMMENDATIONS ARE BEING ACTED UPON.

A. RECOMMENDATION NO. 1

WE RECOMMEND THAT USAID/INDONESIA, IN COOPERATION WITH
THE GOVERNMENT OF INDONESIA, DEVELOP A LIFE-OF-PROJECT
PLAN WHICH IDENTIFIES AND SCHEDULES INPUTS, SETS
MEANINGFUL INTERIM AND FINAL OBJECTIVES, AND ADDRESSES
PROJECT SUSTAINABILITY AFTER A.I.D. ASSISTANCE ENDS.
RESPONSE.

USAID WORKING WITH THE GOI HAS BEGUN TO DEVELOP A LIFE-
OF-PROJECT PLAN. DUE TO CONSTRAINTS PLACED BY THE TIME
REMAINING IN THE PROJECT, THE GEOGRAPHIC AREA DEFINED BY
THE PROJECT DESCRIPTION AND NEED FOR SOME GOI REQUESTED
ACTIVITIES, THIS PLAN IS STILL UNDERGOING REVISION. THE
COMPLETED PLAN WILL IDENTIFY AND SCHEDULE INPUTS,
ESTABLISH INTERIM TARGETS AND ADDRESS PROJECT
SUSTAINABILITY. USAID DOES NOT PROPOSE TO SET NEW FINAL
OBJECTIVES OR TO REVISE THE PROJECT LOGFRAME. IN OUR
JUDGEMENT, AND AS VERIFIED BY THE MIDTERM EVALUATION,
THE CURRENT LOGFRAME REMAINS A VALID OUTLINE OF THE
PROJECT WITH REASONABLE FINAL OBJECTIVES AS REFLECTED IN
THE END OF PROJECT INDICATORS AND OUTPUTS.

BASED ON ACTIONS TAKEN AND IN PROCESS, THE USAID
REQUESTS THIS RECOMMENDATION BE RESOLVED. CLOSURE WILL
BE REQUESTED UPON APPROVAL BY AID OF THE REVISED LIFE-
OF-PROJECT PLANS.

B. RECOMMENDATION NO. 2

WE RECOMMEND THAT USAID/INDONESIA, IN COOPERATION WITH
THE AGENCY FOR AGRICULTURAL RESEARCH AND DEVELOPMENT,
ESTABLISH A PROJECT TRACKING SYSTEM WHICH REPORTS ON
PROGRESS BENCHMARKS AND IMPLEMENTATION EVENTS AND
IDENTIFIES IMPEDIMENTS TO ACHIEVING THE PROJECT
OBJECTIVES.

RESPONSE

USAID PROJECT STAFF FORMALLY MEET WITH THEIR AARD
COUNTERPARTS TO DISCUSS PROJECT PROGRESS AND PROBLEMS
WITH IMPLEMENTATION. IN PREPARATION FOR THESE MEETINGS,
AGENDAS ARE DRAWN UP BASED ON MAJOR PROJECT ACTIVITIES.

USAID HAS PROPOSED TO AARD TO RESTRUCTURE THESE MEETINGS ON A MONTHLY AND QUARTERLY BASIS AND WILL FORMALIZE THIS AGREEMENT THROUGH THE ISSUANCE OF JA COUNTERSIGNED PROJECT IMPLEMENTATION LETTER. ONCE THE OVERALL LOP PLAN AS DISCUSSED IN RECOMMENDATION NO. 1 IS DEVELOPED AND APPROVED, QUARTERLY MEETINGS WILL BE HELD TO DEVELOP DETAILED PROJECT IMPLEMENTATION PLANS FOR THE UPCOMING THREE MONTHS. MONTHLY IMPLEMENTATION MEETINGS WILL BE HELD BETWEEN USAID AND AARD FOR THE PURPOSE OF MEASURING PROGRESS AND IDENTIFYING CONSTRAINTS TO THE QUARTERLY AND OVERALL PLAN. UNDER THIS PROCEDURE THE AARD PROJECT MANAGER WILL ISSUE FORMAL MONTHLY PROJECT IMPLEMENTATION REPORTS. THE REGULAR IMPLEMENTATION MEETINGS PLUS THESE PERIODIC REPORTS WILL FORM THE BASIS FOR A QUARTERLY PROGRESS REPORT, WRITTEN BY IMPLEMENTATION STAFF, WHICH WILL BE GIVEN WIDER GOI/USAID CIRCULATION.

USAID REQUESTS THIS RECOMMENDATION BE RESOLVED. CLOSURE WILL BE REQUESTED UPON ISSUANCE OF THE ABOVE MENTIONED IMPLEMENTATION LETTER.

C. RECOMMENDATION NO. 3

WE RECOMMEND THAT USAID/INDONESIA, IN COOPERATION WITH THE GOVERNMENT OF INDONESIA, DEVELOP A PLAN TO STAFF AND UTILIZE THE FACILITIES CONSTRUCTED WHICH ADDRESSES
BT

50

FACILITY STAFFING LEVELS, EQUIPMENT DELIVERY AND INSTALLATION, BUDGETS FOR REPAIRS AND MAINTENANCE AND RESEARCH TARGETS WITH OPTIONS FOR SCALING BACK AT LESS IMPORTANT FACILITIES UNTIL PERSONNEL AND EQUIPMENT ARE AVAILABLE.

RESPONSE

AS PART OF THE ACTIVITIES UNDER THE MASTER RESEARCH PLAN PUBLISHED IN 1989, A COMPREHENSIVE PLAN WAS DEVELOPED WHICH INCLUDES STAFFING, ESTIMATED BUDGETS FOR REPLACEMENT, REPAIRS AND MAINTENANCE OF BUILDINGS AND EQUIPMENT AS WELL AS PROJECTED RESEARCH ACTIVITIES FOR ALL FOOD CROPS RESEARCH INSTITUTES UNTIL 1994. ONE VOLUME WAS DEVELOPED FOR EACH OF THE RESEARCH INSTITUTES IN THE AARD SYSTEM AND INCLUDES DATA FOR THOSE SITES WHICH HAVE NOT RECEIVED FINANCING UNDER THE AARP. SIMILAR PLANS ARE NOW BEING COMPLETED FOR NON FOOD CROPS RESEARCH INSTITUTES WITHIN AARD. INFORMATION WILL BE EXTRACTED FROM THESE EXISTING PLANS WHICH WILL FOCUS ONLY ON AID FINANCED BUILDINGS AND EQUIPMENT. BASED ON THIS INFORMATION A REVISED PLAN (AID SPECIFIC) FOR STAFFING, EQUIPPING AND MAINTAINING. AID FINANCED BUILDINGS AND MAINTAINING AID FINANCED COMMODITIES WILL BE DEVELOPED, RECEIVED AND APPROVED BY AID.

BASED ON THE ABOVE PLANNED ACTION USAID REQUESTS THIS RECOMMENDATION BE RESOLVED. CLOSURE WILL BE REQUESTED UPCN APPROVAL BY AID OF THE REVISED PLAN.

D. RECOMMENDATION NO. 4

WE RECOMMEND THAT USAID/INDONESIA

A. REVIEW THE CURRENT AND ANTICIPATED USE OF UNDER UTILIZED COMMODITIES TO DETERMINE IF THE COMMODITIES SHOULD BE TRANSFERRED TO OTHER RESEARCH FACILITIES.

B. DEVELOP, IN COOPERATION WITH THE GOVERNMENT OF INDONESIA, A COMMODITY UTILIZATION REPORTING AND MONITORING SYSTEM WHICH IDENTIFIES THE COMMODITIES BY TYPE, LOCATION, AND CONDITION; TRACKS THEIR USE; AND PROVIDES FOR PERIODIC UPDATES, AND

C. ENSURE THAT UNMARKED COMMODITIES ARE PROPERLY IDENTIFIED WITH THE A.I.D. LOGO.

RESPONSE

A) UNDER THE CURRENT WINROCK TECHNICAL ASSISTANCE CONTRACT, THE RESIDENT STATION MANAGEMENT SPECIALIST VISITED IN LATE 1989 AND EARLY 1990 ALL AARD RESEARCH INSTITUTES WHICH HAD RECEIVED PROJECT FINANCED EQUIPMENT. THIS CONSULTANT INSPECTED EQUIPMENT AND MADE APPROPRIATE RECOMMENDATIONS WHICH INCLUDED THE RELOCATION OF SOME FIELD EQUIPMENT (ATTACHMENT 1). USING ITS OWN RESOURCES, THE GOI HAS RELOCATED A PORTION OF THIS MACHINERY TO SUB-STATIONS AS ORIGINALLY INTENDED

AND MOVED SOME ITEMS TO LOCATIONS IN WHICH THEY WILL BE BETTER UTILIZED (ATTACHMENT 2). A SHORT TERM CONSULTANT HAS BEEN CONTRACTED BY WINROCK TO INSPECT, ASSEMBLE AND INSTALL ALL LABORATORY EQUIPMENT FINANCED UNDER THIS PROJECT. THIS CONSULTANT WILL CARRY OUT HIS WORK BETWEEN JUNE-OCTOBER 1992 AND WILL ALSO MAKE RECOMMENDATIONS WITH REGARD TO THE REPAIR OR TRANSFER NEEDS OF EQUIPMENT.

B) AARP PROJECT IMPLEMENTATION LETTER NO. 211 DATED JANUARY 24, 1990 (ATTACHMENT 3), ESTABLISHED A SYSTEM FOR MONITORING ALL EQUIPMENT HAVING A PER UNIT VALUE OF \$1,000 OR MORE. THIS PIL REQUESTED THE APPROPRIATE STATION DIRECTORS TO STATE IF THE LISTED ITEMS WERE INSTALLED, IN USE, MARKED WITH THE AID EMBLEM AND CONDITION. A PARTIAL RESPONSE HAS BEEN RECEIVED AND THE PIL WAS SUBSEQUENTLY RESENT. AN UPDATED VERSION OF THIS EQUIPMENT LIST WILL BE SENT ON A YEARLY BASIS TO ALL APPROPRIATE RESEARCH STATIONS.

C. THE WORK REQUIREMENTS OF AN USAID FSN EMPLOYEE HAVE BEEN REVISED (ATTACHMENT 4) TO STATE THAT THIS INDIVIDUAL WILL BE REQUIRED TO VISIT ALL PROJECT SITES WHICH HAVE RECEIVED PROJECT FUNDED EQUIPMENT TO ASCERTAIN COMPLIANCE WITH SOURCE AND ORIGIN REQUIREMENTS, ENSURE THAT THE EQUIPMENT IS PROPERLY MARKED WITH THE AID EMBLEM AND, IF NOT, TO AFFIX THIS EMBLEM, ETC. THE EQUIPMENT UTILIZATION LISTS DESCRIBED
BT

-52-

IN 4B ABOVE AND PERIODIC SITE VISITS BY THE PROJECT OFFICER WILL FURTHER HELP ENSURE COMPLIANCE WITH SOURCE AND ORIGIN, AND MARKING REQUIREMENTS.

BASED ON THE ABOVE DESCRIBED ACTIONS, USAID REQUESTS THAT RECOMMENDATION NO. 4 BE RESOLVED AND CLOSED.

E. RECOMMENDATION NO. 5

WE RECOMMEND THAT USAID/INDONESIA:

A. ESTABLISH PROCEDURES FOR ASSESSING THE EXTENT OF HOST COUNTRY CONTRIBUTIONS TO THIS PROJECT INCLUDING P.L. 480 TITLE I SALES PROCEEDS AND

B. TAKE ACTION TO ENSURE THAT ADEQUATE FINANCING IS PROVIDED SHOULD THE INITIAL ASSESSMENT INDICATE THAT SHORTFALL EXISTS.

RESPONSE

IT IS NOT TRUE THAT THE MISSION WAS UNAWARE OF THE AMOUNT OF HOST COUNTRY CONTRIBUTIONS. THE GOI MAKES AVAILABLE, ON AN ANNUAL BASIS, A SUMMARY REPORT OF THE TOTAL GOI CONTRIBUTIONS TO THE AARP FOR THE PREVIOUS INDONESIAN FISCAL YEAR (IFY) AS WELL AS THE CUMULATIVE CONTRIBUTIONS TO DATE (PAGE 10 OF ATTACHMENT 5). THE CONTRIBUTION MADE BY THE GOI TO THE AARP THROUGH THE DEVELOPMENT PLANNING BUDGET (DIP) TOTALS OVER USDOL 17,000,000 FROM IFY 81/82 TO IFY 88/89. TWENTY PERCENT OF THIS REPRESENTS THE GCI SHARE OF THE FIXED AMOUNT REIMBURSEMENT (FAR) PAYMENTS WHICH WERE CLOSELY MONITORED BY PROJECT STAFF. THE BALANCE OF THE GCI CONTRIBUTION CONSISTS OF CONTRIBUTIONS FOR CIVIL WORKS NOT COVERED BY THE FAR, STATION DEVELOPMENT, VEHICLE MAINTENANCE, AND TRAVEL AND PER DIEM COSTS OF GOI PROJECT PERSONNEL. ADDITIONAL GOI CONTRIBUTIONS TO THIS PROJECT NOT INCLUDED IN THE DIP FIGURES ARE THE SALARIES OF GOI EMPLOYEES INVOLVED WITH ALL PHASES OF THIS ACTIVITY AND THE VALUE OF LAND ON WHICH PROJECT FUNDED FACILITIES WERE CONSTRUCTED.

ALTHOUGH THE LOAN AND GRANT AMENDMENTS STATE THAT THE GOI SHOULD PROVIDE USDOL 22.8 MILLION OR 41 PERCENT OF THE PLANNED PROJECT COSTS, SECTION A 100 OF THE FOREIGN ASSISTANCE ACT REQUIRES A 25 PERCENT COUNTERPART CONTRIBUTION. WHEN THE GOI CONTRIBUTION TO THE AARP IS COMPARED WITH THE TOTAL CUMULATIVE PROJECT EXPENDITURES, THE GOI CONTRIBUTION IS WELL ABOVE THIS 25 PERCENT FIGURE. WE BELIEVE THAT THE GOI IS AND WILL CONTINUE TO MAKE CONTRIBUTIONS SO THAT ITS FINANCIAL COMMITMENT TO THIS PROJECT IS MET.

IN ADDITION, AND AS INDICATED IN THE DRAFT REPORT, THE CONTROLLER'S OFFICE HAS BEGUN A PROCESS OF COLLECTING INFORMATION ON GOI CONTRIBUTIONS FOR ALL ACTIVITIES. THIS EFFORT INCLUDES BOTH THE MONITORING OF PL-480 TITLE

53

I PROCEEDS AND REVIEWS OF GOI CONTRIBUTIONS AS AN ONGOING PART OF PROJECT FINANCIAL REVIEWS BY THE CONTROLLER'S OFFICES AND BY THE TECHNICAL OFFICES.

BASED ON THE ABOVE, USAID REQUESTS THAT RECOMMENDATION NO. 5 BE RESOLVED AND CLOSED.

F. RECOMMENDATION NO. 6

WE RECOMMEND THAT USAID/INDONESIA

A) CONDUCT COMPLIANCE TESTS TO ENSURE THAT COMMODITIES PROVIDED FOR THIS PROJECT MEET A.I.D. SOURCE AND ORIGIN REQUIREMENTS AND

B) REVIEW THE USDOL 200,000 IN COMMODITIES IDENTIFIED AS HAVING QUESTIONABLE SOURCES OR ORIGINS AND TAKE APPROPRIATE ACTION.

RESPONSE

AS NOTED IN THE DRAFT AUDIT REPORT, ALL COMMODITY PROCUREMENT CONTRACTS REQUIRED THAT AID COMMODITY SOURCE AND ORIGIN CODES BE MET AND THAT ALL PURCHASE INVOICES PROVIDED FOR CERTIFICATION THAT THESE REGULATIONS HAD BEEN MET. HOWEVER, SINCE THE SOURCE AND ORIGIN REQUIREMENTS MAY HAVE NOT BEEN ADHERED TO BY THE CONTRACTORS IN ALL INSTANCES AND IN CONJUNCTION WITH

BT
#0293

NNNN

-94-

RECOMMENDATION NO. 4, THE WORK REQUIREMENTS OF A MISSION FSN EMPLOYEE HAVE BEEN REVISED TO STATE THAT THE EMPLOYEE WILL TRAVEL TO EACH SITE IN WHICH PROJECT FUNDED COMMODITIES ARE LOCATED. THIS EMPLOYEE WILL THEN ENSURE THAT THESE COMMODITIES ARE NOT ONLY PROPERLY MARKED BUT, TO THE EXTENT POSSIBLE, DETERMINE THAT ALL DELIVERED COMMODITIES MEET SOURCE AND ORIGIN REQUIREMENTS.

ON MAY 29, 1990 THE MISSION REQUESTED THE ASSISTANCE OF SER/OP/COMS (ATTACHMENT 6) TO ASCERTAIN IF THE 14 FORD TRACTORS DESCRIBED IN THE REPORT MEET AID SOURCE/ORIGIN REQUIREMENTS BASED ON COMONETRY REGULATIONS. THE TWO BACKHOE ATTACHMENTS ARE BEING CHECKED LOCALLY TO DETERMINE THEIR EXACT SOURCE AND ORIGIN.

BASED ON ABOVE ACTION THE USAID REQUESTS PART (A) OF THIS RECOMMENDATION BE RESOLVED AND CLOSED, AND PART (B) RESOLVED. CLOSURE OF PART (B) WILL BE REQUESTED UPON RECEIPT AND REVIEW OF SER/OP/COMS'S RESPONSE TO JAKARTA 7650 (ATTACHMENT 6) AND A DETERMINATION AS TO THE ACTUAL SOURCE AND ORIGIN OF THE TWO BACKHOE ATTACHMENTS.

4. A COPY OF THIS CABLE AND ITS ATTACHMENT WILL BE FORWARDED TO RIG/A/M UNDER SEPARATE COVER.

MONJO

BT
#0293

NNNN

6/6

UNCLASSIFIED JAKARTA 010293/06

55'

RECOMMENDATIONS

	Page
<u>Recommendation No. 1</u>	6
<p>We recommend that USAID/Indonesia, in cooperation with the Government of Indonesia, develops a life-of-project plan which identifies and schedules inputs, sets meaningful interim and final objectives, and addresses project sustainability after A.I.D. assistance ends.</p>	
<u>Recommendation No. 2</u>	11
<p>We recommend that USAID/Indonesia, in cooperation with the Agency for Agricultural Research and Development, establishes a project tracking system which reports on progress benchmarks and actions critical to project success and identifies impediments to achieving the project's objectives.</p>	
<u>Recommendation No. 3</u>	14
<p>We recommend that USAID/Indonesia, in cooperation with the Government of Indonesia, develops a facility utilization plan which addresses facility staffing levels, equipment delivery and installation, budgeting for repairs and maintenance and research targeting that includes options for scaling back at less important facilities until personnel</p>	

90

and equipment are available.

Recommendation No. 4

21

We recommend that USAID/Indonesia

- a. reviews the current and anticipated use of under-utilized commodities to determine if the commodities should be transferred to other research facilities or USAID projects,
- b. develops, in cooperation with the Government of Indonesia, a commodity utilization reporting and monitoring system which identifies the commodities by type, location, and condition; tracks their use; and provides for periodic updates and
- c. ensures that unmarked commodities are properly identified with the A.I.D. emblem.

Recommendation No. 5

32

We recommend that USAID/Indonesia

- a. verifies the host-country contribution reported by the Government of Indonesia and identifies the shortfall to date, including that attributable to P.L. 480 Title I sales proceeds and
- b. takes action to ensure that adequate financing is provided by the Government of Indonesia so that AID-provided facilities and equipment can be adequately maintained and effectively utilized.

51

Recommendation No. 6

35

We recommend that USAID/Indonesia

- a. conducts compliance tests to ensure that commodities provided for this project meet A.I.D. source and origin requirements and**
- b. reviews the \$200,000 in commodities identified as having questionable sources or origins and take appropriate action.**



APPENDIX

REPORT DISTRIBUTION

	<u>No. of Copies</u>
Mission Director, USAID/Indonesia	5
Assistant Administrator, Bureau for Asia and Private Enterprise (AA/APRE)	1
Office of Development Planning (APRE/DP)	1
Desk Officer - Indonesia (APRE)	1
Bureau for External Affairs (AA/XA)	2
Office of Press Relations (XA/PR)	1
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Assistant to the Administrator for Management(AA/M)	2
Assistant to the Administrator for Personnel and Financial Management (AA/PFM)	2
Office of Financial Management (PFM/FM/ASD)	2
Fiscal Policy Division (PFM/FM/FP)	2
PPC/CDIE	3
US Ambassador to Indonesia	1

No. of Copies

Office of the Inspector General

IG	1
AIG/A	1
DAIG/A	1
IG/PPO	2
IG/LC	1
IG/RM	12
IG/I	1
IG/PSA	1

Regional Inspectors General

RIG/A/Cairo	1
RIG/A/Dakar	1
RIG/A/Nairobi	1
RIG/A/Singapore	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1
RIG/I/Singapore	1